

Message Text

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC NIACT IMMEDIATE 3081

C O N F I D E N T I A L BRASILIA 10950

LIMDIS

E.O. 11652: GDS

TAGS: ETRD, BR

SUBJECT: SIMONSEN REPLY TO SECRETARY SIMON'S LETTER ON
COUNTERVAILING DUTIES

REF: (A) BRASILIA 10928 (B) STATE 299086

1. AMBASSADOR, THIS AFTERNOON, DEC. 23, RECEIVED LETTER FROM MINISTER SIMONSEN TO SECRETARY SIMON, REPLYING TO SECRETARY'S LETTER. COVERING NOTE OF TRANSMITTAL WAS SIGNED BY FRANCISCO DORNELLES EXPLAINING THAT BECAUSE OF LACK OF TIME MINISTRY STAFF WAS UNABLE TO OBTAIN MINISTER'S PERSONAL SIGNATURE BUT THAT HE WAS FORWARDING THE LETTER IN THIS FORM ON THE MINISTER'S BEHALF.

2. SIMONSEN'S LETTER, COUCHED IN CORDIAL TERMS, AFFIRMS TWO KEY POINTS: (A) GOB DOES NOT INTEND TO APPLY DECREE LAW 1.426 TO EXPORTING MANUFACTURERS OF NON-RUBBER FOOT-WARE, LEATHER HANDBAGS AND CASTOR OIL PRODUCTS. (B) CENTRAL BANK RESOLUTIONS 352 AND 353, WHILE PLACING MORE FUNDS INTO THE FINANCIAL MARKET ARE NOT EXPECTED TO PROVIDE FINANCING TO THESE EXPORTERS UNDER TERMS AND CONDITIONS MORE FAVORABLE THAN THOSE ALREADY OBTAINABLE BY THESE FIRMS UNDER RESOLUTION 71. THUS, LETTER IS
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EVEN MORE CATEGORICAL IN ITS ASSURANCES THAN THE ORAL STATEMENT

MADE BY
FINANCE MINISTER TO AMBASSADOR IN YESTERDAY'S MEETING.

3. TEXT OF LETTER FOLLOWS:

QUOTE DEAR BILL:

YESTERDAY, DEC. 22, 1975, THE AMERICAN AMBASSADOR IN BRASILIA, MR. JOHN H. CRIMMINS, PERSONALLY HANDED ME A TEXT OF YOUR LETTER, WHICH EXPRESSED YOUR CONCERN WITH RECENT MEASURES ADOPTED BY THE BRAZILIAN GOVERNMENT IN THE AREA OF EXPROT INCENTIVES, AND THE POSSIBLE CONSEQUENCES OF THOSE MEASURES IN THE COUNTERVAILING DUTY CASES AFFECTING BRAZILIAN EXPORTS, NAMELY NON-UBBER FOOTWEAR, LEATHER HANDBAGS AND CASTOR OIL PRODUCTS.

I HASTEN TO ANSWER TO YOUR LETTER, TRYING TO CLARIFY THE SCOPE OF THE NEW INCENTIVE LEGISLATION AND ITS IMPACT ON THE EXPROTS IN QUESTION.

ICM CREDITS: THE DECREE-LAW 1.426, OF DEC. 2, 1975, PROVIDED FOR THE UTILITZATION OF ACCUMULATED CREDITS OF THE TAX ON CIRCULATION OF MERCHANDISE (ICM), ARISING FROM EXPORT SALES OF MANUFACTURES OR FROM THE ACQUISITION OF RAR OR PACKING MATERIALS FOR SUCH MANUFACTURES, WHEN SUCH CREDITS REMAIN ACCUMULATED IN THE MANUFACTURER'S BOOKS AND ARE NOT OTHERWISE UTILIZABLE PURSUANT TO THE STATE LEGISLATION.

THE DECREE-LAW ALLOWED THE MANUFACTURER TO APPLY THOSE ICM CREDITS IN THE PAYMENT OF THE TAX ON INDUSTRIALIZED PRODUCTS (IPI), DUE IN THE DOMESTIC MARKET OPERATIONS. WHEN SUCH ICM CREDITS ARE NOT UTILIZABLE IN THIS WAY, THE MINISTER OF FINANCE MAY PROVIDE FOR OTHER WAYS FOR THEIR UTILIZATION.

HOWEVER, HE SAME DECREE-LAW MADE THE CARRYING OUT OF THESE PROVISIONS DEPENDENT ON PROTOCOLS TO BE SIGNED BY THE MINISTER OF FINANCE AND THE SECRETARIES OF FINANCE OF EACH STATE, WHICH PROTOCOLS WILL DEFINE, AT A PRODUCT LEVEL, THE TERMS, LIMITS AND CONDITIONS FOR THE UTILIZATION OF SUCH ICM CREDITS. THE REASON FOR SUCH PROTOCOLS IS THAT THE ICM IS CONFIDENTIAL

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A STATE TAX, WHILE THE IPI IS A FEDERAL TAX.

THEREFORE, THE DECREE-LAW 1.426 IS NOT SELF-EXECUTING. AS ITS IMPLEMENTATION DEPENDS ON THE PROTOCOLS, IT HAS NO IMMEDIATE EFFECT ON CURRENT EXPORT INCENTIVES. MOREOVER, THE PROTOCOLS MAY INCLUDE OR EXCLUDE ARTICLES OR CLASSES OF ARTICLES FOR THE PURPOSES OF THIS NEW LEGISLATION.

IN THIS REGARD, I SHOULD LIKE TO INFORM YOU

THAT IT IS NOT THE INTENTION OF THE BRAZILIAN GOVERNMENT TO APPLY THE BENEFITS OF THE DECREE-LAW 1.426 TO EXPORTING MANUFACTURERS OF NON-RUBBER FOOTWEAR, LEATHER HANDBAGS AND CASTOR OIL PRODUCTS.

FINANCING PROGRAMS: RESOLUTIONS 352 AND 353, OF DEC. 2, 1975, ADOPTED BY THE NATIONAL MONETARY COUNCIL, DEAL WITH FINANCING PROGRAMS FOR EXPORTING INDUSTRIES. RESOLUTION 352 IS DIRECTED TO THE FINANCING AND REFINANCING OF EXPORTS. RESOLUTION 353 IS CONCERNED WITH WORKING CAPITAL FINANCING FOR EXPORTING MANUFACTURERS WHICH SHOW AN INCREASE IN EXPORTS. BOTH RESOLUTIONS PROVIDE FOR THE SUPPLY OF RESOURCES INTO THE BANKING SYSTEM FOR THE FINANCING PROGRAMS. TERMS AND CONDITIONS OF SUCH FINANCING STILL DEPEND ON IMPLEMENTATION OF THOSE RESOLUTIONS BY THE CENTRAL BANK OF BRAZIL AND BY CACEX (FOREIGN TRADE OFFICE).

IT SHOULD BE POINTED OUT THAT PREFERENCIAL FINANCING IS ALREADY AVAILABLE UNDER RESOLUTION 71 FOR MANUFACTURERS/EXPORTERS OF FOOTWEAR, LEATHER HANDBAGS AND CASTOR OIL PRODUCTS. THE VALUE OF SUCH INCENTIVE HAS ALREADY BEEN MEASURED FOR FOOTWEAR AND HANDBAGS EXPORTS, AND IS PENDING MEASUREMENT IN THE CASE OF CASTOR OIL PRODUCTS. THE NEW RESOLUTIONS WILL PLACE MORE FUNDS INTO THE FINANCIAL MARKET, BUT NOT PROBABLY UNDER TERMS AND CONDITIONS MORE FAVORABLE THAN THOSE OF RESOLUTION 71. THERE IS NO INDICATION THAT THE NEW FINANCING PROGRAMS WILL AFFECT THE ACTUAL BENEFITS CURRENTLY DERIVED BY SAID EXPORTERS UNDER RESOLUTION 71.

I HOPE THAT THE ABOVE INFORMATION WILL EXPLAIN THE POINTS RAISED IN YOUR LETTER IN A SATIS-
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FACTORY WAY.

MY STAFF AND I ARE, OF COURSE, READY FOR ANY ADDITIONAL CLARIFICATIONS. PLEASE DO NOT HESITATE IN CONSULTING WITH US WHENEVER YOU FEEL IT NECESSARY.

I TAKE THIS OPPORTUNITY TO EXPRESS MY DEEP APPRECIATION FOR THE CONSIDERATION THAT THE OFFICIALS OF THIS MINISTRY AND MYSELF HAVE RECEIVED FROM THE TREASURY DEPARTMENT IN DEALING WITH COUNTERVAILING CASES.

I FULLY UNDERSTAND THE DIFFICULTY OF YOUR TASK IN THESE ISSUES AND I AM SURE THAT YOU REALIZE THAT THE EXPORT ISSUES PRESENT A DIFFICULT TASK TO US AS WELL. I CERTAINLY WISH THAT PROBLEMS IN THIS AREA BE MET THROUGH THE CONTINUING COOPERATION OF OUR GOVERNMENTS. WITH PERSONAL REGARDS, SINCERELY YOURS,

SIGNED MARIO HENRIQUE SIMONSEN

END QUOTE:

CRIMMINS

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